

Partisan Differences in Inflation Expectations: Evidence from a Conjoint Experiment

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November 15, 2024

Abstract

Affective polarization can impact policy evaluations, as individuals who experience intense animosity towards parties they oppose often view issues through a partisan lens and emotional biases, leading to diverging policy positions. We examine how partisan biases affect inflation expectations, a critical economic indicator in monetary policymaking. Using data from a choice experiment (CE) embedded in a survey of a representative sample of US residents conducted between August 11 and 29, 2022, we find that political polarization plays a significant role in shaping public inflation expectations even after controlling for policies affecting macroeconomic performance. Republicans hold higher inflation expectations when Democrats are in office regardless of their policies, and *vice versa*. The findings have important implications beyond academics, for the effectiveness of monetary policy as inflation expectations affect how rational economic agents make consumption, savings, and investment decisions.

Introduction

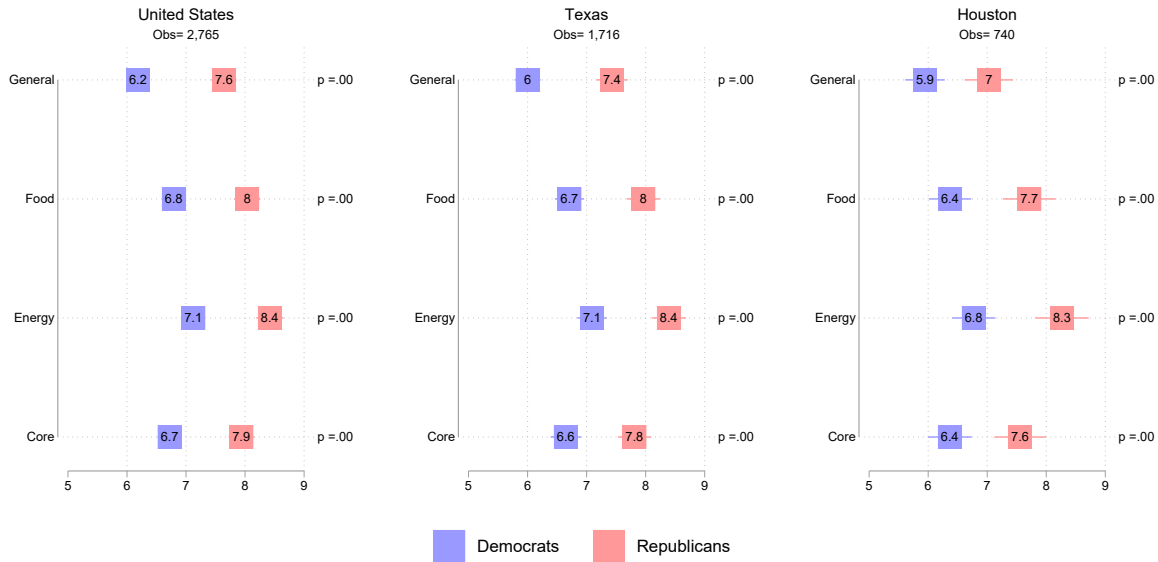
Inflation expectations play a key role for governments in shaping both fiscal and monetary policy effectiveness and the realization of actual inflation rates (Bernanke et al., 2007; Sims, 2009; Kirchner et al., 2008). They influence forward-looking decisions made by economic agents, including choices related to consumption, financing, and investment (Weber, 2022). The economic literature has described the process of updating these expectations as involving how consumers rationally incorporate new information, though this process is not uniform. Variations in information access and processing stem from factors such as rational inattention and cognitive limitations (Cavallo, Cruces and Perez-Truglia, 2017) and different levels of “informedness” among individuals (Binder and Kamdar, 2022).

Recent literature has increasingly used survey experiments to explore how the provision of information impacts individuals’ beliefs and expectations (Armantier et al., 2016; Cavallo, Cruces and Perez-Truglia, 2017; Binder and Kamdar, 2022). Research indicates that not all types of information equally affect expectation revisions. For instance, Armantier et al. (2016) found that information on past-year food prices did not significantly make respondents update their inflation expectations, whereas forecasts from the Survey of Professional Forecasters did. Furthermore, uncertainty and confidence levels also play a crucial role in expectation revisions (Dequech, 2000).

Simultaneously, a growing body of literature in political science has focused on the impact of *affective polarization* on the formation of policy preferences and economic expectations. *Affective polarization*, where individuals develop strong emotions toward political parties, can bias their evaluations of policies and economic conditions (Iyengar et al., 2019). This influence can also extend to expectations about future economic outcomes, as demonstrated by differences in inflation expectations across political affiliations (Coibion, Gorodnichenko and Weber, 2020). For example, Figure 1 illustrates partisan differences in inflation expectations from a national representative sample of respondents to a survey fielded between June 6th to July 7th, 2022: the figure highlights that Republicans consistently have higher inflation expectations than Democrats in the U.S., Texas, and the city of Houston. During this period, characterized by a unified Democratic government, individuals who self-identified as Republicans systematically reported higher *inflation expectations* than those who self-identified as Democrats. Given the relevance of inflation expectations for government policy and their impact on price formation, studying partisan differences in inflation expectations is non-trivial for both economics and political science.

In this paper we analyze the partisan gap in inflation expectations and the role of political factors contributing to this gap, such as government formation. We argue that from the voter’s perspective, the incumbent’s partisanship represents a set of policies that are likely to produce varying economic outcomes preferred by the voter. This set of policies, in turn, are more likely to be more inflationary under different states of the world. However, the voter does not directly observe whether the conditions under which the policies enacted by partisan governments will lead to higher inflation: voters will form their inflation expectations depending on the government’s credibility, in the eyes of the voters. In line with the argument

Figure 1: Inflation Expectation by Party Identification in the U.S., Texas, and Houston



developed by [Cukierman and Tommasi \(1998\)](#), we argue that voters will expect different levels of inflation depending on the partisanship of the incumbent implementing it. For example, Republican voters might view an expansive fiscal policy (generally associated with higher inflation) as leading to lower levels of inflation when implemented by a Republican incumbent because they perceive that a Republican incumbent will only implement this policy when necessary given the state of the world. This Republican voter expects higher inflation under a Democratic incumbent, because they perceive Democrats to have a penchant for higher spending irrespective of the state of the world. Therefore, the partisanship of the incumbent alone would create a larger partisan gap in expectations than any specific policy.

Second, we argue that a divided government reduces the partisan gap in inflation expectations. While previous studies ([Cukierman and Tommasi, 1998](#); [Bachmann, Gründler, Potrafke and Seiberlich, 2021](#)) consider the partisanship of the executive incumbent, we argue that individuals also use information about the composition of the House and Senate when creating their expectations. From the voters' perspective, when seeing an incumbent from the opposing party with a House and Senate controlled by the party voters identify with, they perceive a counterbalance that prevents the preferred policies of the incumbent President from being enacted, and ultimately reducing the inflation expectation gap.

Finally, we argue that when a policy is strongly associated with a particular party—such as the stimulus package with the Democratic Party during the COVID-19 pandemic—voters will perceive the policy to result in higher levels of inflation when enacted by the party they oppose.

To test our argument we use data from a conjoint experiment embedded in a survey of representative sample of US residents fielded in 2022, where we randomize the incumbent party in different branches of government, salient monetary and fiscal policy instruments, and local, national, and international eco-

conomic and political conditions that could impact individual inflation expectations. This way, we can analyze individuals' inflation expectations under hypothetical profiles that combine partisan governments with policies that might not be immediately associated with those parties.

Related Literature

Inflation Expectations

Affective polarization has been widely studied, especially in the context of US. However, the recent literature suggests that the partisan bias and polarization has been on rise. According to the recent survey by the [Pew Research Center \(2022\)](#), 72% of Republicans regard Democrats as more immoral, and 63% of Democrats claim the same about Republicans. There are several different reasons on why this is happening, but the rise in misinformation and opinion programs on US cable news channels seems to be pivotal ([Bursztyn et al., 2022](#)). They examined the impact of this rise in opinion programs on people's behavior and beliefs during COVID-19 pandemic, and found that viewers turn to opinion programs over "straight news" even when provided large incentives to learn objective facts. In fact, the areas with greater relative viewership of the program downplaying the threat experienced a greater number of coronavirus-related cases and deaths.

Expectations in the short and long run steer how a rational economic agent makes consumption, savings, and investment decisions. The literature suggests that expectations of the households can help to explain inflation, including the recent high inflation episode ([International Monetary Fund, 2023](#)). Thus, being able to accurately monitor inflation expectations plays a crucial role in the success of monetary policy ([Armantier et al., 2013](#)).

However, households don't respond much to monetary policy announcements in low-inflation periods ([Coibion et al., 2020](#)), and additionally, there is a disagreement about inflation amongst households and professional forecasters ([Mankiw, Reis and Wolfer, 2004](#)). This paper delves into both of the above points by conducting a survey experiment examining inflation expectations for non-professionals, and the time period of the experiment lies in the era when the US was dealing with an episode of high inflation.

Affective polarization has been found to have an impact on inflation expectations. Inflation expectations were higher in the Republican-dominated states compared to Democratic-dominated states when Barack Obama was the U.S. president, and declined when Donald Trump became president ([Bachmann, Gründler, Potrafke and Seiberlich, 2021](#)). Additionally, [Gillitzer, Prasad and Robinson \(2021\)](#) report that individuals who identify as partisan changed their inflation expectations concerning the pre-2016 presidential elections by around 1 percentage point with respect to independents. While Democrats upwardly revised their 1-year ahead expectations, Republicans switched in the opposite direction. Furthermore, when classifying individuals between weak or strong self-reported partisan affiliation, the difference in expectations between both groups increased to 2.6 percentage points.

Stereotypical Respondents and Inflation Expectations

Following Gillitzer, Prasad and Robinson (2021), we show that the differences in inflation expectations can be rationalized through the lens of a stereotypical thinking model. Let $f(\pi|q_k)$ be the density function for inflation under the government of quality k , where quality can take two possible values, high (h) or low (l).

The odd likelihood ratio can be written as

$$R(\pi, q_l, q_h) = \frac{f(\pi|q_l)}{f(\pi|q_h)} \quad (1)$$

Furthermore, we assume that low inflation is more likely under a high quality government, which in turn implies that $R(\pi, q_l, q_h)$ is *increasing* in π and that $R(\pi, q_h, q_l)$ is *decreasing* in π . With that in hand, it is possible to define the conditional density function for a stereotypical thinker as:

$$f^\theta(\pi|q_l) = f(\pi|q_l) \frac{R(\pi, q_l, q_h)^\theta}{\int f(\pi|q_l) R(\pi, q_l, q_h)^\theta d\pi} \quad (2)$$

where $\theta \geq 0$ measures the extent of stereotypical thinking. Under $\theta = 0$, the model collapses to a Bayesian updating scenario, and for positive values of θ , the model shows bias or distortion in how the agent perceives the information.

To see this more clearly, the numerator of the second term of the right-hand side of the equation (2) is a measure of how the agent is weighing beliefs about inflation and assigning how likely they come from a low-quality type. When the agent thinks about high inflation, she assumes it must come from a low-quality government, but when creating her expectation, she overweight her belief with respect to what a Bayesian agent would conclude, that is, $f(\pi|q_l)$. In that sense, the parameter θ creates a difference in how stereotypical thinkers process information with respect to rational agents.

When applying to partisan agents, we can adapt the model and assume that from the viewpoint of a Republican (Democrat) agent, a high-inflation is more likely to happen under a Democrat (Republican) government than under a Republican (Democrat) government.

In order to gain more intuition with the model, we need to impose some structure on it. We assume that the true density of inflation under low and high quality of government, i.e., $f(\pi|k)$, comes from a normal distribution that exhibits the same standard deviation but has different means. Consistent with the assumption that $R(\pi, q_l, q_h)$ is *increasing* in π , the mean of inflation conditional on high-quality is $2 - \frac{\delta}{2}$, and the mean of inflation conditional on low-quality government is $2 + \frac{\delta}{2}$. The difference between average inflation under two types of government is captured by δ .

Under this setting, the difference in expected inflation between Democrats and Republicans can be attributed because of differences in the stereotypical thinking parameter θ or because of differences in the parameter δ . Furthermore, the model has three hypotheses:

Hypothesis 1 (H₁). Conditional on the same government composition, Democrats and Republicans will have different inflation expectations

Hypothesis 2 (H₂). Respondents who identify with the Republican Party expect higher inflation when the Democratic Party controls the government than respondents who identify with the Democratic Party.

Hypothesis 3 (H₃). Inflation expectations of Democratic respondents and Republican respondents are not symmetric. Republicans under Democrat governments will have different expectations than Democrats under Republican governments.

The findings shown in Figure 1 provide support to Hypothesis 1: there are significant partisan differences in inflation expectations across the United States, Texas, and Houston. Republicans consistently hold greater expectations than Democrats, across general, food, energy, and core inflation. This suggests that political ideology has a significant impact on economic outlooks across various domains of inflation. The similarity of these disparities across different geographical areas emphasizes a broader national pattern, indicating that political affiliations have a significant influence on perceptions of economic conditions.

Choice Experiment Design and Empirical Analysis

The theoretical concept of conjoint analysis was introduced in the seminal work by [Luce and Tukey \(1964\)](#). The empirical analysis with conjoint experiments was first applied to marketing research in the 1970s ([Green and Rao, 1971](#); [Green, 1974](#); [Green and Srinivasan, 1978](#)). Since then, conjoint analysis has become increasingly popular in various fields of social sciences, particularly in political science, due to a growing interest in causal inference and the benefits of experimental design. These experiments are superior to traditional survey methods because they allow for the simultaneous estimation of the effects of multiple attributes, making it easier to analyze complex causal relationships beyond simple binary treatment effects. The rise of computer-administered surveys has further boosted the use of conjoint designs. This has enabled fully randomized setups, simplifying statistical estimation and reducing reliance on modeling assumptions. Moreover, the format of web-based surveys is particularly suited to the implementation of these complex designs.

Conjoint experiments have become pervasive in survey-based political science research: they have been used in analyzing voter choice ([Christensen et al., 2021](#); [Bansak et al., 2023b](#)), attitudes toward immigration ([Hainmueller and Hopkins, 2015](#); [Zhirkov and Smilan-Goldstein, 2023](#)), residential preferences ([Molin, Oppewal and Timmermans, 2001](#)), and policymaking decisions ([Makkar et al., 2015](#)). Conjoint experiments are also designed to measure the impacts of different attributes on voters' preferences and sensitivities. They offer valuable insights into multifaceted decision-making processes across various contexts and issue areas. Conjoint experiments can be a powerful tool to investigate socially sensitive attitudes. Conjoint designs have also been shown to be useful tools in political science research, as they can replicate real-world outcomes and produce dependable responses across various attributes and tasks.

In this paper we conduct a conjoint experiment to study the partisan differences in inflation expectations. It has been well documented in the literature that when examining multidimensional relationships, just

using a survey experiment might not be enough. Conjoint experiment in this study allows us to study and analyze these multi-dimensional casual effects simultaneously. In particular, the conjoint design solves the trade-off between restriction in experimental conditions and lack of statistical power (Knudsen and Johannesson, 2019). Additionally, the average marginal component effect (AMCE) is composed of an aggregation of individual-level preferences (Bansak et al., 2023a).

We conducted a choice experiment (CE) embedded in an online survey that took place from August 11 to 29, 2022. The survey focused on a sample of U.S. residents, with oversampling in both the State of Texas and the City of Houston. A total of 4,095 participants aged 18 and above, completed the survey. An overview of our sample's descriptive statistics is available in Table A1 of the Appendix.

For the CE framework, each respondent engaged in a sequence of six choices involving two distinct scenarios (Scenario A or Scenario B), where the levels of three attributes were randomly assigned. Participants were tasked with determining which of the two scenarios they believed would result in higher inflation over the upcoming twelve months (first 3 trials), as well as the following five years (trials 4 to 6). Figure A3 for an illustration of the interface encountered by respondents while addressing the conjoint questions.

The profiles presented included three specific attributes: *Politics*, *National and International Economy*, and *Local Economy*. Of particular significance to this study, the *Politics* attribute presented four alternatives that pertained to the government's partisan orientation. Furthermore, the *National and International Economy* attribute encompassed two policy levels linked to the fiscal and monetary agendas of the U.S. political parties. The *Local Economy* attribute refers to prices and wages. The attributes and attribute levels are presented in table 1.

Table 1: Attribute Levels of Conjoint Experiment

<i>Politics</i>	
(1)	Democratic president and Democratic control of Congress
(2)	Republican president and Republican control of Congress
(3)	Democratic president and Republican control of Congress
(4)	Republican president and Democratic control of Congress
<i>National and International Economy</i>	
(1)	The FED increases its interest rate from 0.5% to 1%
(2)	A \$1.9 trillion fiscal stimulus package is passed...
(2.1)	The government passes a \$1.9 trillion fiscal stimulus package
(2.2)	The Biden administration passes a \$1.9 trillion fiscal stimulus package
(2.3)	Congress passes a \$1.9 trillion fiscal stimulus package
(3)	The Russian-Ukrainian war
(4)	Intensified trade conflict with China
(5)	Appearance of a new variant of COVID-19
<i>The Local Economy</i>	
(1)	You learn that the unemployment rate has risen from 3.8% to 5.0%
(2)	You learn that average wages have risen by 5.0%
(3)	You experience an increase in the price of gas at the pump of 10%
(4)	You experience an increase in the price of ground meet of 10%

Our intent is to analyze responses to identify which attributes and attribute levels would result in higher inflation according to respondents.

The conjoint experiment presented in Table 1 is a widely used method that involves presenting multiple alternatives to respondents. To examine respondents' choices among a fixed set of options, the estimation of the discrete choice models, suggested by McFadden (1973) random utility theory (RUT), have been adopted. In each conjoint experiment, respondent i makes a decision based on $J = 2$ choices. Each respondent takes a series of $T = 5$ experiments. As a result, the utility U derived from respondent i 's choice of alternative j in an experiment t can be written as follows:

$$U_{ijt} = V_{ijt} + \epsilon_{ijt} = x_{ijt}\beta_i + \epsilon_{ijt}, \quad (3)$$

where V_{ijt} is the observable component of utility and ϵ_{ijt} is the unobservable component assumed to be distributed as iid extreme value (McFadden and Train, 2000). V_{ijt} is linear in parameters with $V_{ijt} = x_{ijt}\beta_i$, where x_{ijt} a vector of alternative-specific variables and the vector of coefficients β_i . This model assumes that the choice among alternatives is based on the utility that each alternative offers to the individual, where the utility is a linear function of the observed characteristics x_{ijt} .

We apply the conditional logistic regression (CLR), which is commonly used for the analysis. This method involves using a binary dependent variable indicating one if the option was chosen and zero

otherwise. In our research, participants were presented with three distinct attributes, each with various characteristics. The CLR assumes that options are concurrently presented to respondents, from which a selection is made. Given the error term ϵ_{ijt} is an iid extreme value and independent of β_i , the conditional probability that respondent i chooses j from a set of J alternatives in experiment t , given β_i , is a standard logistic model, which can be presented as follows:

$$P_{ijt} = \exp(x_{ijt}\beta_i) / \sum_{k=1}^J \exp(x_{ikt}\beta_i), \quad (4)$$

where P_{ijt} is defined as the probability of choosing alternative j for respondent i in experiment t . The coefficients β_i are estimated in a way that maximizes the likelihood of observing the choices made by all individuals in the sample. Technically speaking, equation (4) calculates the odds of choosing a particular option by comparing the exponential function of the utility (as determined by the observed characteristics and their respective weights) of that option against the sum of the exponential functions of the utilities of all options within the choice set.

After estimating the conditional logit model, we calculate the average marginal component effects (AMCEs) for each attribute. The AMCE is a crucial concept in conjoint analysis, as it takes into account both the direction and intensity of preferences for individual attributes, thereby capturing the multidimensionality of the choice task. Technically, the AMCE for a specific attribute, say A , is the expected difference in potential outcomes between profiles where $A=1$ compared to $A=0$. This calculation is done by taking the average over the joint distribution of the other attributes. Therefore, the AMCE measures the causal effect of changing a single attribute of a profile while averaging over the distribution of the other attributes. This approach simplifies the interpretation of causal effects as it often involves multiple attributes, making it a popular choice in conjoint analysis.

Results

In order to start examining the expectations derived from the theory, we estimate AMCEs using responses from survey participants, regardless of their party affiliations. For the purposes of this model (and for every other model estimated), we set the levels of each attribute closer to the status quo at the time the survey was conducted as the reference category. These include: *Democratic control of the Presidency, House, and Senate* (for the political attribute); *the war with Ukraine* (for the context and policy attribute); and *an increase in unemployment from 3.8% to 5%* (for the local economy attribute). We then estimate the AMCEs of other components within each attribute against these baseline values. Figure 2 shows the estimated effects of all the attributes on the likelihood that respondents consider a scenario likely to produce a higher level of inflation (a table with the coefficients can be found in Appendix A3).

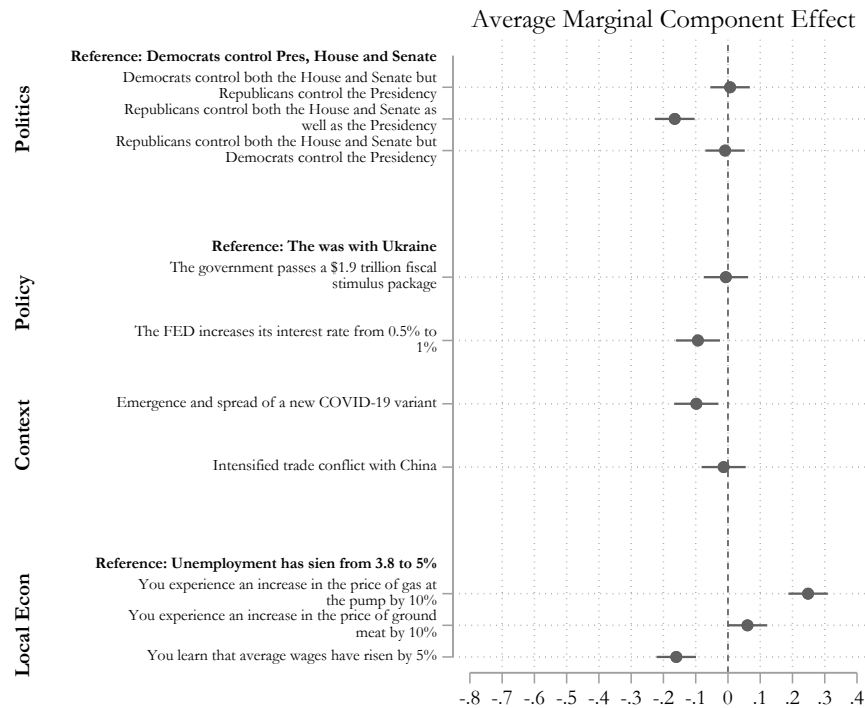


Figure 2: Average effects of inflation expectation attributes, policy/context, and local economy scenarios on the probability of anticipating higher inflation levels. Each bullet represents the estimated average marginal component effect (AMCE) of each attribute level on a respondent’s probability of selecting a hypothetical scenario containing that attribute level, compared with another scenario featuring the baseline level for the same attribute. The horizontal bars indicate 95 percent confidence intervals robust to clustering at the respondent level. The baseline levels—representing the status quo at the time the survey. Additional details and the coefficients are available in the supplementary appendix. The range of the x-axis was extended to make coefficients comparable with Figure 3.

Overall, results from Figure 2 indicate that political and policy/context attributes have a lesser impact on inflation expectations compared to local economic factors. The most influential factors on inflation expectations are those directly experienced in everyday life, such as *increased meat prices at stores* (0.0650) and *rising gas prices* (0.272). This suggests that day-to-day economic changes exert more influence on people’s inflation expectations than broader political or policy considerations. Additionally, respondents associate the *rise in average wages by 5%* with a level that leads to lower inflation (-0.149). Regarding the political attribute, the only coefficient with statistical significance relative to the reference category is *Republicans controlling both the House and Senate as well as the Presidency* (-0.152). Within the Policy and Context attribute, the statistically significant coefficients are the *War with Ukraine* (0.106), *the government passing a \$1.9 trillion fiscal stimulus package* (0.110), and an *intensified trade conflict with China* (0.127).

Results by Party Identification of Respondents

Figure 3 presents the ACME for two different subsamples based on the party identification of the respondents. In contrast with the previous figure, here we not only care about the coefficient but also about the partisan difference between those coefficients. The largest differences in the factors that lead to higher inflation between Democrats and Republicans are observed within the Politics attribute, i.e., who is in office.

This result supports Hypotheses 2a and 2b. The most pronounced gap is seen when *Republicans control both the House and Senate as well as the Presidency*. For this level, the ACME for Democrats is 0.314, while for Republicans, it is -0.759. Additionally, in cases where *Republicans have control of both the House and Senate, and Democrats control the presidency*, Republican respondents tend to associate these situations with lower inflation expectations than Democrats (0.336 and -0.429, respectively). Finally, the figure also shows that for the level *Democrats control both the House and Senate, but Republicans control the Presidency*, the coefficient for Republicans is, again, negative relative to the status quo (-0.280), and positive for Democrats (0.235). In sum, any situation different from the status quo when the survey was conducted (unified Democratic government) would lead Republican respondents to expect less inflation, while for Democrats, to expect higher inflation.

Turning to the Policy & Context attribute, the partisan differences are less evident. The only level where the coefficients for Democrats and Republicans move in opposite directions relative to the reference category is for the expansionist fiscal policy, i.e., *the government passes a \$1.9 trillion fiscal stimulus package*, where the coefficient for Democrats is -0.129, while for Republican respondents, it is 0.350. All other levels do not show evident partisan differences in their coefficients. Finally, for the attribute that showed the larger coefficients in the full sample analysis, we do not document any partisan difference in terms of the direction of the coefficients

Overall, the results suggest that Democrats and Republicans largely agree on the everyday factors that indicate higher inflation, as well as the policies that lead to higher or lower levels of inflation. However, there is a strong disagreement over which type of government—Democrat, Republican, or Divided—is more likely to cause inflation. In all cases, individuals who identify with a political party believe that the more involved the opposition party is in government, the more likely it is that the scenario will lead to higher inflation, holding all policies, context, and local economy indicators constant.

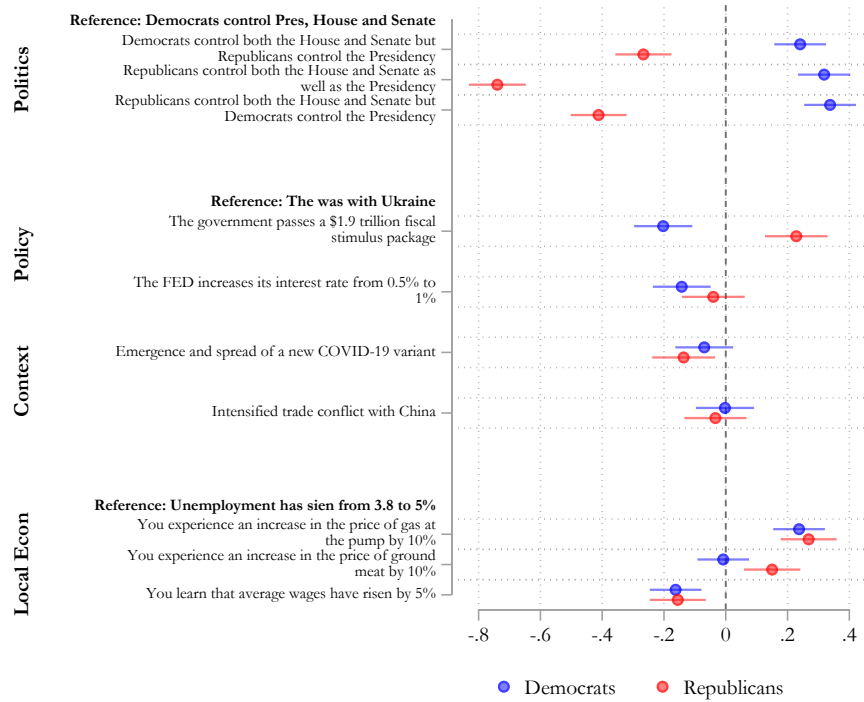


Figure 3: Average effects of inflation expectation attributes, policy/context, and local economy scenarios on the probability of anticipating higher inflation levels, segmented **by party identification of respondents**. Each bullet represents the estimated average marginal component effect (AMCE) of each attribute level within the party-affiliation subsamples on a respondent’s probability of selecting a hypothetical scenario containing that attribute level, compared to another scenario with the baseline attribute level. Horizontal bars indicate 95 percent confidence intervals, robust to clustering at the respondent level by party identification. The figure shows the differential impact of attributes on inflation expectations across Democratic and Republican respondents. Additional details and coefficients are available in the appendix.

In addition, we conduct a battery of robustness checks. Tables A5 and A6, and Figure A1 show the results by time horizon, i.e., short vs. long term, based on the wording of the conjoint header. The results are distinct regarding the time horizon specification. Additionally, Tables A7, A8, and A9 show the results by geographical subsample: the United States (excluding Texas), Texas (excluding Houston), and Houston, respectively. Figure A2 presents these models together. The results are consistent across geographical regions.

Partisan Differences in Inflation Expectations

We follow the recommendations from Leeper, Hobolt and Tilley (2020), who argue that the choice of reference categories can significantly affect the observed differences between subsamples in a conjoint experiment. If a reference category with minimal variation is chosen, larger differences in other variables may be observed, and vice versa.

Figure 4 displays the differences in conditional marginal means for each level of the attributes. The figure shows a similar story to Figure 3. The attribute showing the largest discrepancies between Republican and Democrat respondents is the political one. The two levels that generate the largest discrepancies are the unified Democratic and the unified Republican governments. When the profile included the level of a unified Democratic government, Republican respondents were 14% more likely than Democratic respondents to select that profile as the one that would lead to greater inflation, holding all other levels constant.

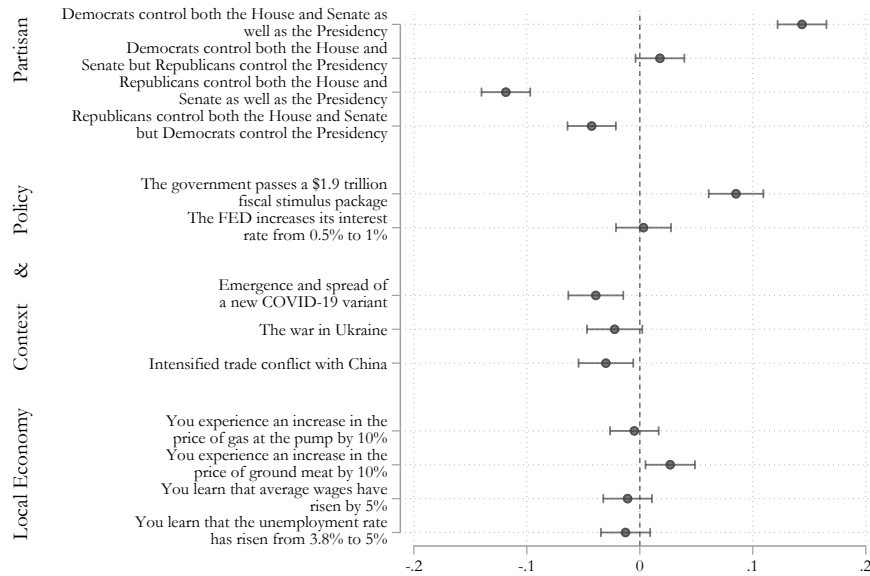


Figure 4: Differences in conditional marginal means by party identification of respondents are presented. The predictions show the difference calculated as **Democrats minus Republicans**. Therefore, positive prediction values mean that, relative to Democrats, Republicans expect higher inflation for the given level; conversely, negative coefficients indicate that Democrats expect higher inflation than Republicans for that level. The vertical dotted line at zero indicates no difference between the groups. The intervals represent 95% confidence.

Conversely, when the profile included the level of a unified Republican government, Republican respondents were 11% less likely than Democratic respondents to select that profile as the one that would lead to greater inflation, with all other levels held constant. For the level *Republicans control both the House and Senate, but Democrats control the Presidency* the predicted difference between Republicans and Democrats is 4%, and is statistically significant. Finally, the predicted difference for the level *Democrats control both the House and Senate, but Republicans control the Presidency* shows no statistical significance. Regarding the Policy and Context Attribute, the largest predicted difference corresponds to the level *the government passes a \$1.9 trillion fiscal stimulus package*, equal to 8.5%, followed by *Emergence and spread of a new COVID-19 variant*, equal to -3.9%, and the *intensification of the trade conflict with China* with -3%. All other predicted differences for this attribute are not statistically significant. Regarding the Local Economy attribute, only the level *You experience an increase in the price of ground meat by 10%* (2.7%) is statistically significant. Table 2 shows the marginal predictions used to generate Figure 4.

Level	Marginal Diff.	Std. Errors	t-stat	p-value	95% CI	
					Lower	Upper
Political Attribute						
Democrats control both the House and Senate as well as the Presidency	0.144	0.011	13.021	0.000	0.122	0.165
Democrats control both the House and Senate but Republicans control the Presidency	0.018	0.011	1.618	0.106	-0.004	0.039
Republicans control both the House and Senate as well as the Presidency	-0.119	0.011	-10.765	0.000	-0.140	-0.097
Republicans control both the House and Senate but Democrats control the Presidency	-0.043	0.011	-3.901	0.000	-0.064	-0.021
Policy and Context Attribute						
The government passes a \$1.9 trillion fiscal stimulus package	0.085	0.012	6.903	0.000	0.061	0.109
The FED increases its interest rate from 0.5% to 1%	0.003	0.012	0.262	0.793	-0.021	0.028
Emergence and spread of a new COVID-19 variant	-0.039	0.012	-3.139	0.002	-0.063	-0.015
The war in Ukraine	-0.022	0.012	-1.784	0.074	-0.047	0.002
Intensified trade conflict with China	-0.030	0.012	-2.431	0.015	-0.054	-0.006
Local Economy Attribute						
You experience an increase in the price of gas at the pump by 10%	-0.005	0.011	-0.439	0.660	-0.026	0.017
You experience an increase in the price of ground meat by 10%	0.027	0.011	2.413	0.016	0.005	0.049
You learn that average wages have risen by 5%	-0.011	0.011	-0.985	0.325	-0.032	0.011
You learn that the unemployment rate has risen from 3.8% to 5%	-0.013	0.011	-1.137	0.256	-0.034	0.009

Table 2: Marginal partisan differences in the conjoint analysis of inflation expectations, calculated as predictions for Democrat minus predictions for Republican respondents. The table displays the marginal differences for each attribute level, with corresponding standard errors, t-statistics, p-values, and 95% confidence intervals. Positive values indicate a greater increase in inflation expectation among Republicans compared to Democrats for the given level, while negative values suggest a greater increase among Democrats.

The findings in Figure 3 and Figure 4 suggest that inflation expectations vary depending on whether the respondent identifies with the Republican or the Democratic Party. Inflation expectations among partisan respondents depend on which party controls the Presidency and Congress, as proposed in Hypothesis 1. Secondly, these differences in inflation expectations move in the opposite direction to the respondents' party identity, supporting Hypothesis 2. For Democratic respondents, the larger the participation of the Republican Party in government, the higher their inflation expectations. Conversely, for Republican respondents, more involvement of the Democratic Party in the government is associated with higher inflation expectations. The results also suggest that there is no complete symmetry in the partisan gap regarding inflation expectations. Finally, Republicans are more likely than Democrats to perceive high inflation when evaluating a government controlled by the opposition, as outlined in Hypothesis 3.

Conclusion

The literature on affective polarization argues that individuals with a strong affiliation with a particular political party tend to develop intense negative emotions toward politicians, policies, and negative expectations associated with the opposing party. These negative perceptions can lead to biases that cause them to dislike or dismiss any politician or policy solely based on their association with the opposing party,

without considering the politician's or policy's potential benefits or merits.

This paper studies the influence of political affiliation on individuals' inflation expectations. Using a conjoint experiment design, we disentangle the multidimensional influences on inflation expectations and demonstrate the significant impact of political affiliation, policy preferences, and local economic conditions on these anticipations.

We find that Republicans consistently hold higher inflation expectations than Democrats across the United States, regardless of the type of inflation considered. This partisan disparity in inflation expectations indicates that political ideology profoundly impacts economic outlooks. Local economic factors, such as changes in the prices of everyday goods, have a more significant impact on inflation expectations than broader political or policy considerations.

This study sheds light on the partisan biases in inflation expectations, providing a better understanding of the interactions between political and economic perceptions. Policymakers and central banks should consider the political and partisan biases in inflation expectations when communicating about inflation and monetary policy. Effective communication strategies should be designed to address these biases and ensure that public expectations remain well-anchored to actual economic indicators and policy intentions. Furthermore, enhancing the public's understanding of economic policies and their implications could mitigate how partisan "loyalty" influences economic expectations.

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Appendix

“Beyond Policy: Partisan Differences in Inflation Expectations.
Evidence from a Conjoint Experiment”

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A1 Descriptive Statistics of Conjoint Experiment

Table A2: Attributes occurrence of conjoint experiment

	Occurrence No.	Chosen No.	Percent Chosen %
<i>National/International economy</i>			
Congress passes a \$1.9 trillion fiscal	3,258	1,646	50.52
The government passes a \$1.9 trillion f	3,270	1,677	50.82
The Biden administration passes a \$1.9	3,300	1,685	51.53
Emergence and spread of a new COVID-19	9,828	4,730	48.13
Intensified trade conflict with China	9,828	5,031	51.19
The FED increases its interest rate from	9,828	4,808	48.92
The war in Ukraine	9,828	4,993	50.8
<i>Local economy</i>			
You experience an increase in the price	12,398	6,893	55.6
You experience an increase in the price	12,135	6,125	50.47
You learn that average wages have risen	12,349	5,559	45.02
You learn that the unemployment rate ha	12,258	5,993	48.89
<i>Political conditions</i>			
Democrats control both the House and Se	12,161	6,202	51
Democrats control both the House and Se	12,365	6,274	50.74
Republicans control both the House and	12,207	5,771	47.28
Republicans control both the House and	12,407	6,323	50.96

Table A1: Descriptive Statistics

	Mean	Std. Dev.	Min	Max
Democrat	.3628816	.4808898	0	1
Republican	.3123321	.4635011	0	1
No Preference	.3247863	.4683521	0	1
Vote in 2018	.4771673	.4995394	0	1
Vote in 2020	.6324786	.482189	0	1
Male	.4205128	.4937016	0	1
Female	.5531136	.4972317	0	1
Other	.0263736	.1602633	0	1
Age: 18-29	.2561661	.4365679	0	1
Age: 30-44	.3001221	.4583668	0	1
Age: 45-64	.2918193	.4546551	0	1
Age: 65+	.1518926	.3589605	0	1
White	.6339438	.4817839	0	1
Black or African American	.1594628	.3661518	0	1
Hispanic	.209768	.4071927	0	1
Native American or Alaskan	.0273504	.1631223	0	1
Asian or Pasific Islander	.0483516	.2145344	0	1
Other Race	.0310134	.1733751	0	1
Income: Less than \$20K	.2556777	.4362947	0	1
Income: \$20K to \$39.9K	.2561661	.4365679	0	1
Income: \$40K to \$79.9K	.2840049	.4509942	0	1
Income: \$40K to \$79.9K	.2041514	.4031294	0	1
Vehicle: No	.5997558	.4900076	0	1
Vehicle: Yes, one	.2046398	.4034874	0	1
Vehicle: Yes, more than one	.1956044	.3967137	0	1
Property Owner: Yes	.5235653	.4995054	0	1
Property Owner: No	.4764347	.4995054	0	1
College Degree	.3047619	.4603627	0	1
Observations	4095			

A2 Example of Conjoint Experiment

Table A3

University Logo

In the following screen, you will have to choose between two hypothetical scenarios with different local and international politics and economic situations. You will have to decide which of the two scenarios you think would lead to a higher level of inflation over the next 12 months / over the next 5 years. Please, compare the two scenarios carefully and answer the following question. Which of the following scenarios would lead to a higher inflation rate over the next 12 months / over the next 5 years? (Compare each pair of scenarios independently).

Attribute	Policy A	Policy B
National/International economy	The Government passes a \$1.9 trillion fiscal stimulus package (6.6%)	The FED increases its interest rate from 0.5% to 1%
Local economy	You experience an increase in the price of ground meat in 10%	You experience an increase in the price of gas at the pump in 10%
Political conditions	Democratic president and Democratic control of the Congress	Democratic president and Republican control of the Congress

Policy A

Policy B

A3 Conjoint Analyses Table

Table A4: Results from Conjoint Analysis – Figures 2 and 3

MODELS	(1)		(2)		(3)
ATTRIBUTES	Baseline		Democrats		Republicans
	Coef.	Std. Err.	Coef.	Std. Err.	Coef.
<i>Political conditions</i>					
Reference: Democrats control both the House and Senate as well as the Presidency					
Democrats control both the House and Senate but Republicans control the Presidency	-0.0106	(0.0269)	0.235	(0.0440)	-0.280
Republicans control both the House and Senate as well as the Presidency	-0.152	(0.0310)	0.314	(0.0508)	-0.759
Republicans control both the House and Senate but Democrats control the Presidency	0.00137	(0.0278)	0.336	(0.0456)	-0.429
<i>Local economy.</i>					
Reference: You learn that the unemployment rate has risen from 3,8% to 5%					
You experience an increase in the price of gas at the pump by 10%	0.272	(0.0268)	0.246	(0.0453)	0.280
You experience an increase in the price of ground meat by 10%	0.0650	(0.0264)	-0.00382	(0.0438)	0.150
You learn that average wages have risen by 5%	-0.149	(0.0264)	-0.146	(0.0439)	-0.139
<i>Political conditions.</i>					
Reference: Emergence and spread of a new COVID-19 variant					
Intensified trade conflict with China	0.127	(0.0304)	0.0704	(0.0515)	0.0959
The FED increases its interest rate from 0.5% to 1%	0.0370	(0.0304)	-0.0723	(0.0507)	0.0782
The government passes a \$1.9 trillion fiscal stimulus package	0.110	(0.0306)	-0.129	(0.0509)	0.350
The war in Ukraine	0.106	(0.0299)	0.0674	(0.0491)	0.128
Constant	-0.0342	(0.0128)	-0.0938	(0.0209)	-0.0233
Log simulated-likelihood	-16846.5		-6074.4		-5115.2
Observations	49140		17832		15348

Notes: * 10% significance level; ** 5% significance level; *** 1% significance level, two-tailed tests

A4 Robustness Check

A4.I Analysis by short and long term

Figure A1: Models for short and long term

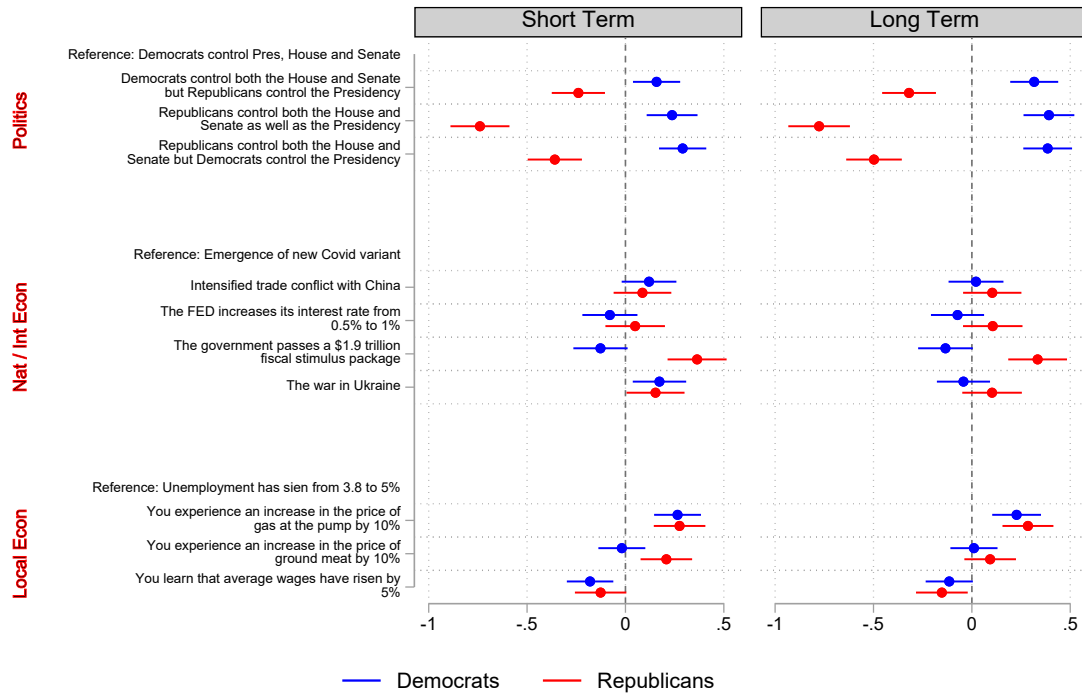


Table A5: Models for short term inflation expectations

MODEL ATTRIBUTES	(1) Democrats	(2) Republicans
<i>Political conditions</i>		
Reference: Democrats control both the House and Senate as well as the Presidency		
Democrats control both the House and Senate but Republicans control the Presidency	0.158	(0.0612) -0.239 (0.0690)
Republicans control both the House and Senate as well as the Presidency	0.237	(0.0659) -0.740 (0.0765)
Republicans control both the House and Senate but Democrats control the Presidency	0.291	(0.0612) -0.359 (0.0703)
<i>Policy conditions</i>		
Reference: Emergence and spread of a new COVID-19 variant		
Intensified trade conflict with China	0.120	(0.0710) 0.0864 (0.0748)
The FED increases its interest rate from 0.5% to 1%	-0.0791	(0.0714) 0.0493 (0.0772)
The government passes a \$1.9 trillion fiscal stimulus package	-0.127	(0.0704) 0.364 (0.0766)
The war in Ukraine	0.173	(0.0692) 0.153 (0.0752)
<i>Local economy.</i>		
Reference: You learn that the unemployment rate has risen from 3.8% to 5%		
You experience an increase in the price of gas at the pump by 10%	0.265	(0.0608) 0.275 (0.0669)
You experience an increase in the price of ground meat by 10%	-0.0183	(0.0608) 0.208 (0.0669)
You learn that average wages have risen by 5%	-0.180	(0.0602) -0.126 (0.0667)
Constant	-0.131	(0.0285) -0.00444 (0.0316)
Log simulated-likelihood	-3026.3	-2559.9
Observations	8916	7674

Notes: * 10% significance level; ** 5% significance level; *** 1% significance level, two-tailed tests

Table A6: Models for long-term inflation expectations

MODEL ATTRIBUTES	(1) Democrats		(2) Republicans	
<i>Political conditions</i>				
Reference: Democrats control both the House and Senate as well as the Presidency				
Democrats control both the House and Senate but Republicans control the Presidency	0.317	(0.0622)	-0.319	(0.0698)
Republicans control both the House and Senate as well as the Presidency	0.392	(0.0659)	-0.776	(0.0799)
Republicans control both the House and Senate but Democrats control the Presidency	0.385	(0.0632)	-0.497	(0.0721)
<i>Policy conditions</i>				
Reference: Emergence and spread of a new COVID-19 variant				
Intensified trade conflict with China	0.0210	(0.0712)	0.104	(0.0756)
The FED increases its interest rate from 0.5% to 1%	-0.0729	(0.0689)	0.106	(0.0771)
The government passes a \$1.9 trillion fiscal stimulus package	-0.134	(0.0709)	0.334	(0.0761)
The war in Ukraine	-0.0427	(0.0689)	0.103	(0.0773)
<i>Local economy.</i>				
∞ Reference: You learn that the unemployment rate has risen from 3.8% to 5%				
You experience an increase in the price of gas at the pump by 10%	0.227	(0.0632)	0.285	(0.0661)
You experience an increase in the price of ground meat by 10%	0.0107	(0.0611)	0.0930	(0.0669)
You learn that average wages have risen by 5%	-0.115	(0.0612)	-0.152	(0.0671)
Constant	-0.0553	(0.0303)	-0.0419	(0.0331)
Log simulated-likelihood	-3039.5		-2552.1	
Observations	8916		7674	

Notes: * 10% significance level; ** 5% significance level; *** 1% significance level, two-tailed tests

A4.2 Analysis by geographical area

Figure A2: Including a dummy variable for term

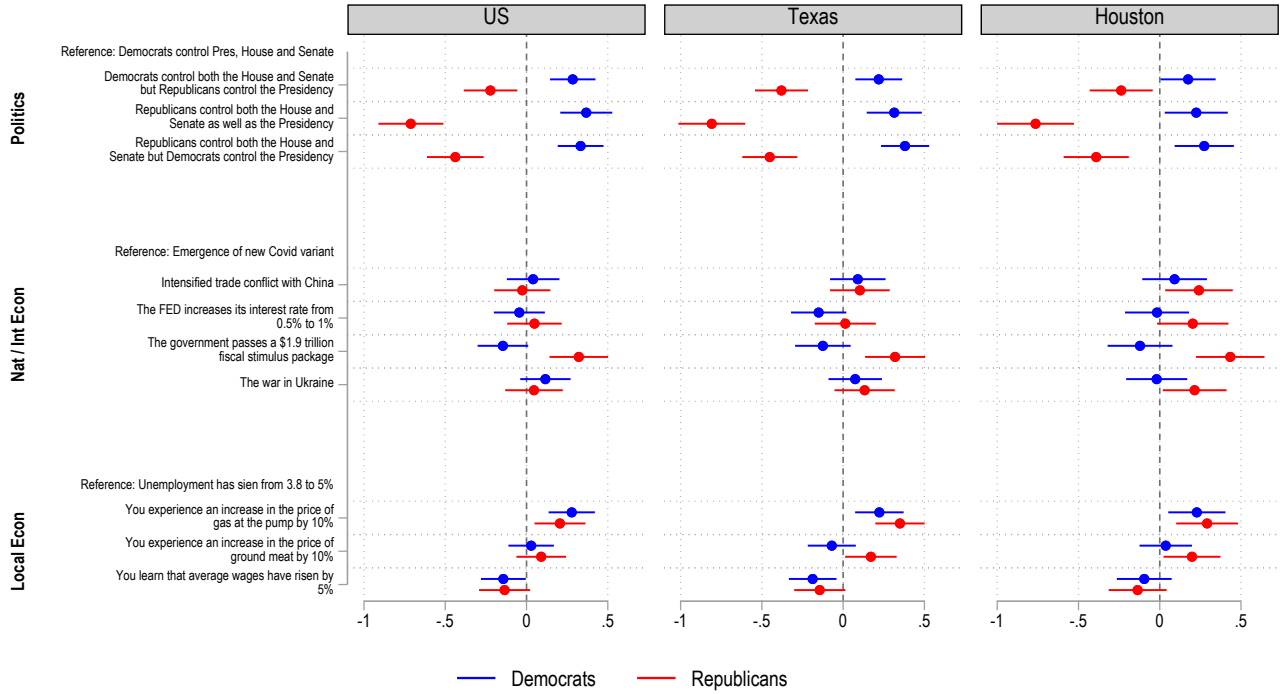


Table A7: Models of inflation expectation for the US (excluding Texas and Houston)

MODEL	(1)		(2)	
ATTRIBUTES	Democrats		Republicans	
	Coef.	Std. Err.	Coef.	Std. Err.
<i>Political conditions</i>				
Reference: Democrats control both the House and Senate as well as the Presidency				
Democrats control both the House and Senate but Republicans control the Presidency	0.284	(0.0712)	-0.222	(0.0838)
Republicans control both the House and Senate as well as the Presidency	0.367	(0.0816)	-0.712	(0.102)
Republicans control both the House and Senate but Democrats control the Presidency	0.333	(0.0718)	-0.438	(0.0888)
<i>Policy conditions</i>				
Reference: Emergence and spread of a new COVID-19 variant				
The war in Ukraine	0.116	(0.0789)	0.0457	(0.0903)
Intensified trade conflict with China	0.0405	(0.0825)	-0.0264	(0.0880)
The FED increases its interest rate from 0.5% to 1%	-0.0443	(0.0800)	0.0487	(0.0855)
The government passes a \$1.9 trillion fiscal stimulus package	-0.145	(0.0795)	0.322	(0.0920)
<i>Local Economy</i>				
Reference: You learn that the unemployment rate has risen from 3.8% to 5%				
You experience an increase in the price of gas at the pump by 10%	0.278	(0.0727)	0.205	(0.0796)
You experience an increase in the price of ground meat by 10%	0.0285	(0.0713)	0.0903	(0.0778)
You learn that average wages have risen by 5%	-0.143	(0.0704)	-0.135	(0.0802)
Constant	-0.139	(0.0331)	-0.0396	(0.0405)
Log simulated-likelihood	-2412.8		-1829.9	
Observations	7116		5472	

Notes: * 10% significance level; ** 5% significance level; *** 1% significance level, two-tailed tests

Table A8: Models of inflation expectation for the Texas subsample (excluding Houston)

MODEL	(1)		(2)	
ATTRIBUTES	Democrats		Republicans	
	Coef.	Std. Err.	Coef.	Std. Err.
<i>Political conditions</i>				
Reference: Democrats control both the House and Senate as well as the Presidency				
Democrats control both the House and Senate but Republicans control the Presidency	0.219	(0.0735)	-0.379	(0.0832)
Republicans control both the House and Senate as well as the Presidency	0.315	(0.0864)	-0.809	(0.105)
Republicans control both the House and Senate but Democrats control the Presidency	0.381	(0.0755)	-0.452	(0.0860)
<i>Policy conditions</i>				
Reference: Emergence and spread of a new COVID-19 variant				
Intensified trade conflict with China	0.0902	(0.0870)	0.103	(0.0939)
The FED increases its interest rate from 0.5% to 1%	-0.151	(0.0867)	0.0132	(0.0958)
The government passes a \$1.9 trillion fiscal stimulus package	-0.125	(0.0872)	0.320	(0.0943)
<i>Policy conditions</i>				
Reference: You learn that the unemployment rate has risen from 3.8% to 5%				
The war in Ukraine	0.0742	(0.0839)	0.132	(0.0946)
You experience an increase in the price of gas at the pump by 10%	0.223	(0.0761)	0.349	(0.0774)
You experience an increase in the price of ground meat by 10%	-0.0699	(0.0755)	0.171	(0.0808)
You learn that average wages have risen by 5%	-0.188	(0.0748)	-0.144	(0.0800)
Constant	-0.0534	(0.0360)	0.00152	(0.0370)
Log simulated-likelihood	-2063.7		-1871.7	
Observations	6072		5640	

Notes: * 10% significance level; ** 5% significance level; *** 1% significance level, two-tailed tests

Table A9: Models of inflation expectation for the Houston subsample

MODEL ATTRIBUTES	(1) Democrats		(2) Republicans	
	Coef.	Std. Err.	Coef.	Std. Err.
<i>Political conditions</i>				
Reference: Democrats control both the House and Senate as well as the Presidency				
Democrats control both the House and Senate but Republicans control the Presidency	0.174	(0.0864)	-0.237	(0.0988)
Republicans control both the House and Senate as well as the Presidency	0.225	(0.0990)	-0.764	(0.121)
Republicans control both the House and Senate but Democrats control the Presidency	0.274	(0.0930)	-0.391	(0.102)
<i>Local economy</i>				
Reference: Emergence and spread of a new COVID-19 variant				
Intensified trade conflict with China	0.0913	(0.101)	0.241	(0.106)
The FED increases its interest rate from 0.5% to 1%	-0.0168	(0.100)	0.203	(0.112)
The government passes a \$1.9 trillion fiscal stimulus package	-0.121	(0.102)	0.434	(0.107)
<i>Policy conditions</i>				
Reference: You learn that the unemployment rate has risen from 3.8% to 5%				
The war in Ukraine	-0.0189	(0.0958)	0.215	(0.100)
You experience an increase in the price of gas at the pump by 10%	0.228	(0.0897)	0.291	(0.0970)
You experience an increase in the price of ground meat by 10%	0.0369	(0.0824)	0.198	(0.0894)
You learn that average wages have risen by 5%	-0.0955	(0.0861)	-0.136	(0.0908)
Constant	-0.0766	(0.0405)	-0.0329	(0.0447)
Log simulated-likelihood	-1590.9		-1407.1	
Observations	4644		4236	

Notes: * 10% significance level; ** 5% significance level; *** 1% significance level, two-tailed tests

A4.3 Effects by Political and Economic Literacy

If one of the two partisan groups, either Democrats or Republicans, has a better understanding of politics and/or economics than the other on, it could be argued that the partisan gap documented in Figure 4 would result from differences in literacy rather than political polarization. To investigate this possibility, we conducted a series of analyses to check whether the results in Figure 4 hold in the face of this alternative mechanism.

In our survey, we included a set of ten questions assessing basic knowledge of U.S. politics and economics. We used responses to these questions to create an index of political and economic literacy. Then, we created a dummy variable indicating whether a respondent's literacy level was above or below the mean of our sample.

Specifically, we conducted two series of analyses and reported the predicted marginal effects here. First, we replicated the analysis in Figure 4 separately for individuals with lower literacy (Figure A3) and for individuals with higher-than-average literacy (Figure A4). For our explanation of polarization as the primary driver of the gap on inflation expectation to remain valid, we would expect to observe a partisan gap in inflation expectations similar to the one in Figure 4, regardless of literacy level. Indeed, Figures A3 and A4 show exactly that: for both subsamples, those below and above the mean in political and economic literacy, we found the same gap in government formation expectations documented in the main analysis.

Second, we compared responses within each partisan group—Democrats (Figure A5) and Republicans (Figure A6)—to determine whether political and economic literacy affects respondents' choices. For our explanation to hold, we would expect no effect of literacy within either group. Among Democrats, this expectation is met, as all predictions overlap with zero. Among Republicans, however, we observed an effect: Republicans with higher literacy tend to believe that a unified Republican government would lead to lower inflation, while a unified Democratic government would lead to higher inflation (compared to Republicans with lower literacy). In sum, we conclude that, for some Republicans, in addition to polarization, literacy influences inflation expectations. In contrast, for Democrats, polarization remains the sole source of inflation expectations.

Figure A3: Marginal Effect of Party Identification at Lower levels of Political and Economic Knowledge (Dem-Rep)

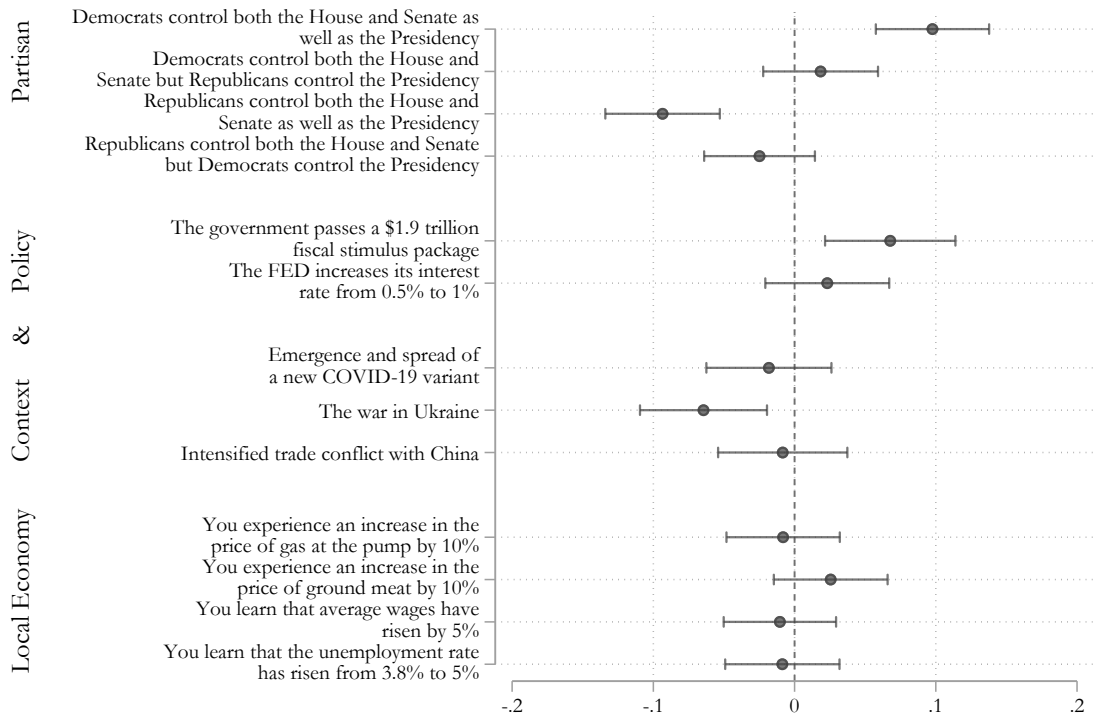


Figure A4: Marginal Effect of Party Identification at Higher levels of Political and Economic Knowledge (Dem-Rep)

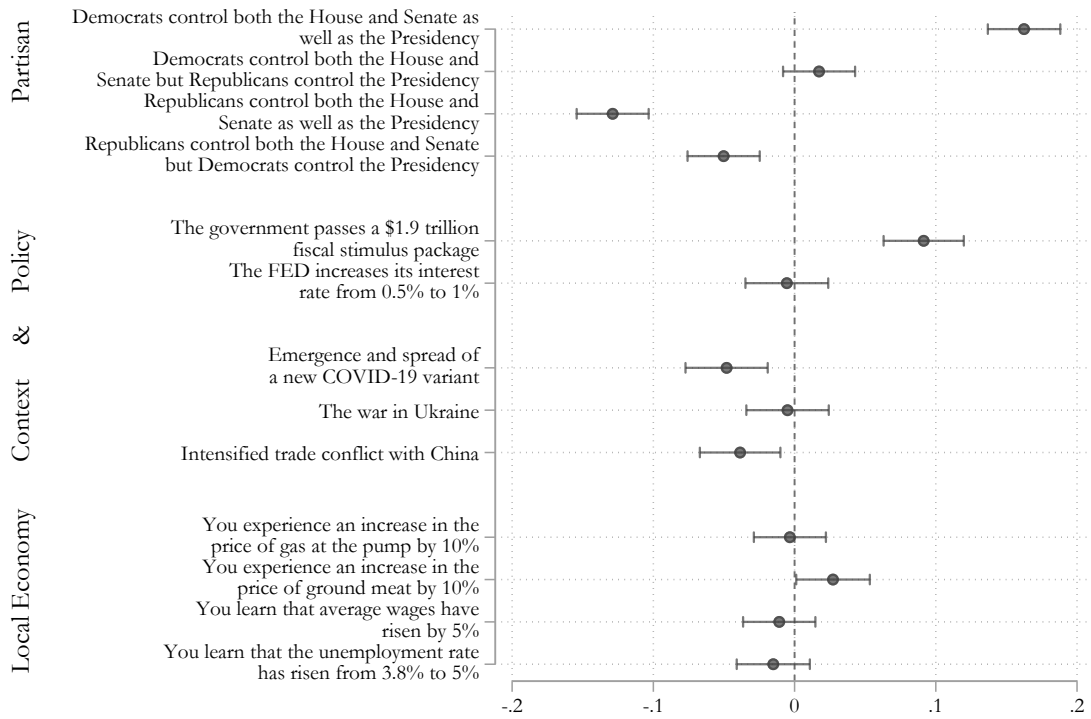


Figure A5: Marginal Effect of Political and Economic Knowledge among Democrats (Lower-Higher)

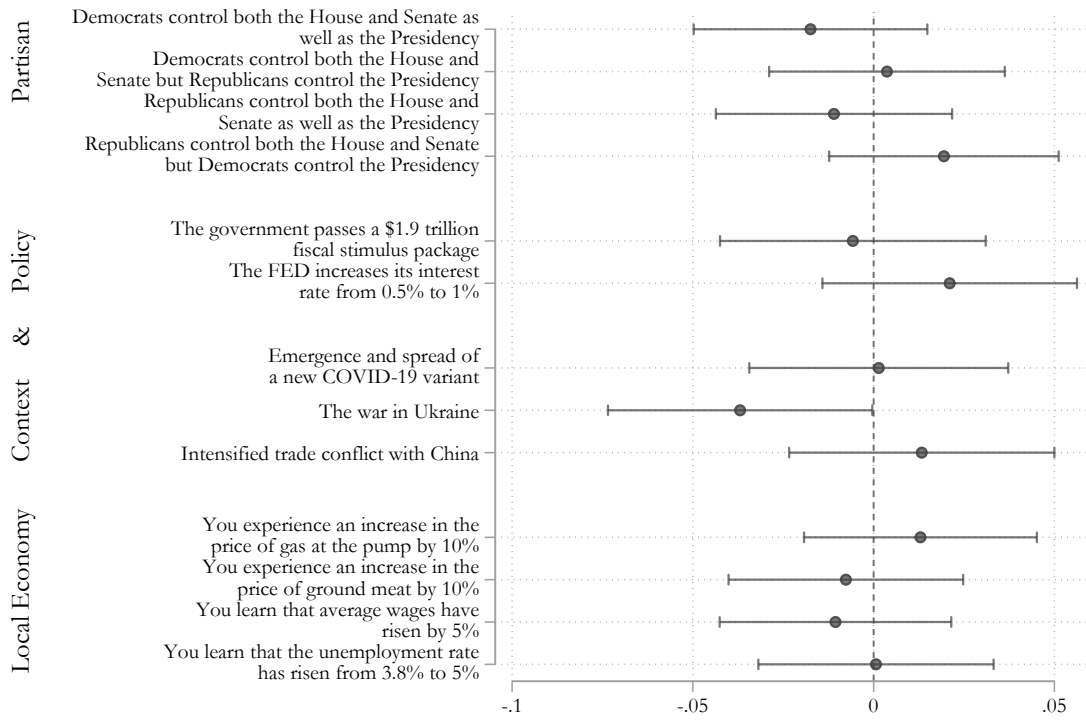


Figure A6: Marginal Effect of Political and Economic Knowledge among Republicans (Lower-Higher)

